

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 STR-08 CEA-02

FEA-02 DRC-01 /167 W

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R 090255Z AUG 74

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8497

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 2509

EO 11652: NA

TAGS: EFIN, ETRD, NZ

SUBJECT: GNZ AMENDS CAR SALES TAX TO REDUCE FOREIGN EXCHANGE LOSS

REF WELLINGTON 2499

1. SUMMARY PARLIAMENT LOWERS TAXES ON SMALLER CARS BY AS MUCH AS 10 PER CENT AND INCREASES THEM ON LARGER CARS UP TO 20 PERCENT. END SUMMARY.
2. THE LABOUR GOVERNMENT PRESENTED AND PUSHED THROUGH PARLIAMENT ON AUGUST 8 A SALES TAX AMENDMENT LAW TO CHANGE THE SALES TAXES ON CARS FROM A FLAT 40 PER CENT TO A GRADUATED ONE BASED ON THE CUBIC CENTIMETER RATING OF THEIR ENGINES.
3. THE SALES TAX, WHICH WILL BECOME EFFECTIVE FOR CARS LEAVING WHOLESALERS FROM AUGUST 9, IS ACTUALLY AIMED PRINCIPALLY AT REDUCING CONSUMPTION OF GASOLINE WHICH IN TURN SHOULD SLOW THE DRAIN ON FOREIGN EXCHANGE RESERVES.
4. THERE SHOULD ALSO BE A SAVING ON FOREIGN EXCHANGE FROM

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SHIFTS TO SMALLER CAR IMPORTS. THIS SHIFT SHOULD TAKE SIX TO

NINE MONTHS.

5. THE GOVERNMENT CALCULATES THE OVERALL SAVING IN FOREIGN EXCHANGE WILL EVENTUALLY TOTAL \$NZ 25 MILLION TO \$NZ 30 MILLION A YEAR.

6. THE TAX ON CARS WITH ENGINES NOT EXCEEDING 1350 CC WILL BE REDUCED TO 30 PER CENT AND CARS WITH OVER 2700 CC ENGINES WILL PAY 60 PER CENT TAX. THE IN BETWEEN SIZES WILL PAY 37 1/2 PER CENT.

7. COMMENT: A MAJOR SHARE OF NZ CAR IMPORTS COME FROM AUSTRALIA. THESE IMPORTS ARE NOT UNDER NAFTA. MODELS AUSTRALIA EXPORTS TO NZ ARE THE FORD FALCON (WHICH WILL INCREASE IN PRICE ABOUT \$NZ750) HOLDEN BELMONT (UP ALSO ABOUT \$NZ 750) AND THE CHRYSLER VALIANT RANGER (UP ABOUT \$NZ700). THOUGH ALL OF AUSTRALIA'S CAR EXPORTS TO NZ ARE THUS ADVERSELY AFFECTED, SINCE THE TAX IS NOT AN IMPORT TAX, THE BASIS FOR A COMPLAINT IS LESS SOUND. THE AUSTRALIAN TRADE COMMISSIONER IN WELLINGTON TOLD THE EMBASSY ECON COUNSELOR THAT THOUGH THE DEMAND FOR AUSTRALIA'S CARS WOULD INITIALLY FALL SOME IT WAS EXPECTED THAT, ONCE THE CONSUMER ADJUSTED TO THE HIGHER PRICES IT WOULD PROBABLY PICK UP AGAIN. IF THIS PROVES TRUE, THE TAX WOULD NOT ACHIEVE ITS OBJECTIVE. THE SMALLER CARS IMPORTED FROM ENGLAND AND JAPAN STAND TO GAIN FROM THE REDUCED SALES TAXES, BUT THE COST OF LUXURY CARS LIKE JAGUARS AND MERCEDES BENZ CAN JUMP AS MUCH AS \$NZ3000.

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